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MONEY MARKET IN FEBRUARY

Tight money market conditions in February, particularly in the first half of the month, were to a considerable extent an aftermath of drains on the reserves of member banks and increases in their reserve requirements in January. In meeting those developments the banks had incurred substantial indebtedness at the Reserve Banks, and it was their efforts to retire this indebtedness, more than any large new demands on their reserves, that kept money market conditions tight well into February. An active demand for Federal funds at interest rates only slightly below Reserve Banks' discount rates prevailed during most of the month. Money market conditions turned easier temporarily during the third week of the month, only to tighten again in the final week.

Factors affecting the Government security market during the past month were somewhat similar to those in January. Commercial bank liquidation of short-term Treasury issues again exceeded nonbank investor purchases, and the Federal Reserve System absorbed substantial amounts of short-term Treasury notes and bonds, as well as long-term bonds. Life insurance companies continued to reduce their holdings of long-term restricted Treasury bonds, and savings banks were reported to have been sellers of the longest maturities, frequently against purchases of somewhat shorter-term issues which had shown greater price declines. Security dealers also reduced their holdings of Government securities and repaid some of their borrowings from the banks. Prices of intermediate and longer-term Treasury bonds, except the two longest-term issues, declined moderately during the month.

The final instalment of the increase in legal reserve requirements announced by the Board of Governors of the Federal Reserve System on December 28, 1950 came due on February 1. The impact on member bank positions of the higher legal reserves was reflected in the banking statistics for the four statement weeks ended February 7. Over this four-week period as a whole, the amount of reserves needed by member banks to adjust to the higher reserve requirements and other demands on their cash resources amounted to somewhat more than 2.1 billion dollars. Approximately $1\frac{3}{4}$ billion of this sum, nearly 85 per cent, was raised by the banks through expansion of their use of Federal Reserve credit.

Only 360 million dollars came out of the banks' own cash resources (excess reserves). They obtained Federal Reserve credit through borrowing from the Reserve Banks and through sales of short-term Treasury securities in the market, only part of which found a market among nonbank investors and the greater part were absorbed by the Federal Reserve System.

The month of January ended with member banks owing the Reserve Banks almost 800 million dollars. It was largely the banks' efforts to pay off this indebtedness that kept money market conditions tight during the first two weeks of February. The final instalment of the increase in legal reserve requirements (at country member banks) amounted to more than 280 million dollars. Other sources of pressure on bank reserves during the first half of the month came from continued substantial losses of funds through gold and other foreign account transactions, a moderate public demand for additional currency, and some further net receipts in the Treasury's account with the Reserve Banks. A substantial expansion of Federal Reserve float to an unprecedented level for the time of year was the principal offsetting factor. In part, the delay in check collections that gave rise to the expansion in float was related to the railroad strike and poor weather conditions (which delayed the mails) early in the month.

On more than one occasion member banks repaid a substantial part of their borrowings from the Reserve Banks only to find it necessary to reborrow. On the first day of February, they were able to reduce their indebtedness by more than 500 million dollars, largely by drawing upon their excess reserve balances. But subsequent demands upon their

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reserves made it necessary for them to incur new indebtedness, and it was not until February 14 that the banks were able to cut their debts to approximately the February 1 level of 295 million dollars. The reduction in member bank indebtedness was achieved mainly through net sales of Government securities, a large part of which were absorbed by the Federal Reserve System. System net purchases of Government securities in this period totaled about 325 million dollars, while member bank excess reserves were reduced 185 million.

As in the previous month, sales of Treasury obligations by the commercial banks were larger than the net increase in the System's holdings, indicating further demand for short-term Treasury obligations on the part of nonbank investors. The purchases by these investors gave only limited relief to the banks' reserve positions, however, as they provided no additional reserves, but only resulted in a reduction in bank deposits and a fractional reduction in the banks' aggregate reserve requirements. Sales of long-term Government bonds by insurance companies and other institutional investors did tend to provide the banks with additional funds, however, since considerable amounts of those bonds were absorbed by the Federal Reserve System.

Money market conditions continued moderately tight during most of the second half of the month. The market was easy for only a short time during the week ended February 21, partly as a result of funds put into the money market through Government security transactions, and partly as a result of a temporary inflow of funds from other parts of the country. The New York City money market banks were able to complete the repayment of their borrowings from the Reserve Bank and to accumulate a moderate amount of excess reserves temporarily. As a result, the rate on immediately available Federal funds, which had ruled close to $1\frac{5}{8}$ per cent during most of the first half of the month, declined to as low as $\frac{1}{8}$ - $\frac{1}{4}$ per cent on February 20, but rose again thereafter.

In the last week of the month, the rate again approached the Federal Reserve discount rate, as money conditions tightened abruptly. The change was attributable to a sharp reduction in Federal Reserve float and heavy takings by the market of the new Treasury bills issued on February 23.

GOVERNMENT SECURITY MARKET

To a considerable extent, influences affecting the Government security market were similar to those prevailing in the preceding month, but prices declined in February after some rise in January. Industrial corporations and others continued to purchase Treasury bills (particularly those maturing around March 15) and also Treasury notes and short-term bonds in order to invest growing tax reserves or other idle funds. Life insurance companies entered the short-term issue market more actively during the past month, reinvesting some of the proceeds of their sales of long-term bonds in Treasury bills and short-term Treasury notes. Member bank needs for additional reserves led to further liquidation of short-term Treasury obligations, and some of these institutions, having

exhausted their holdings of Treasury bills, sold Treasury notes and short and medium-term bonds. Nonbank investor demand was not sufficiently large to absorb all commercial bank offerings, and the Reserve System made substantial purchases in the open market, particularly in the first half of the month. When the pressure eased for a time during the second part of the month, yields on Treasury bills and on the July and August 1951 notes declined temporarily in response to increased demands for them.

Reflecting continued uncertainty as to prospects for long-term interest rates, and further selling by life insurance companies, prices of restricted Treasury bonds fell gradually during the month, and showed net losses of $\frac{3}{32}$ to $\frac{19}{32}$ of a point, except for the two longest maturities, which remained unchanged. The mutual savings banks were also reported to have been sellers of the longest issues against purchases of the earlier maturities, and probably reduced their aggregate holdings to meet depositors' net withdrawals. During the week ended February 21, "professional" selling of Government securities was indicated by a reduction in dealers' borrowings. Reserve Bank purchases of long-maturing Treasury issues were larger than in January. In addition, the Reserve Banks bought substantial amounts of short-term Treasury bonds which were sold by commercial banks for reserve-adjustment purposes. Medium and longer-term, bank-eligible bond prices also declined in February, particularly the longest issues. These declines reflected mainly very light selling on the part of the commercial banks, with little interest evident on the demand side of the market. Prices of partially tax-exempt Treasury bonds fell moderately during the month, as some banks not vulnerable to the excess profits tax disposed of medium and longer-term securities, while interest in these issues lagged after a sizable advance during the past several months.

MEMBER BANK CREDIT

As in the preceding twelve months, the decline in member bank holdings of Government securities during the past month reflected other demands for bank credit, in addition to sales to meet the final instalment of the increase in legal reserve requirements and to repay borrowings from the Reserve Banks. Sales of Treasury securities provided funds with which to expand bank loans further. The major demand for such loans again came from industrial and commercial borrowers, and the latest banking statistics available at the time of writing showed a substantial increase in business borrowings from all weekly reporting member banks in the two weeks ended February 14. (Figures for the third week for the New York City banks revealed a further increase in business loans.)

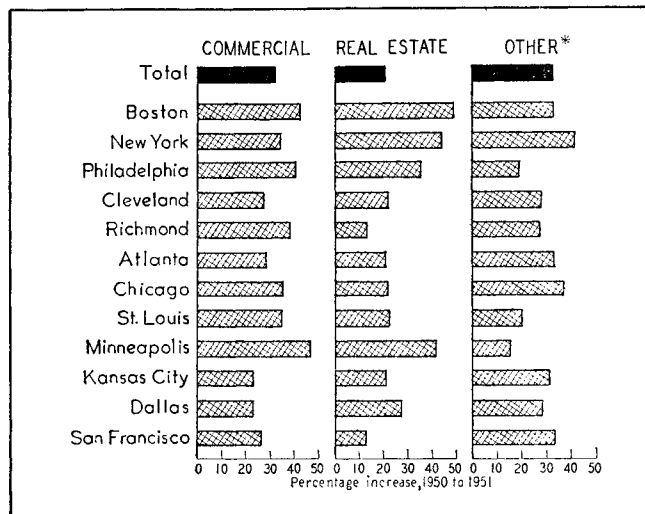
The growth of business loans of all weekly reporting member banks accounted for almost 90 per cent of the gain of all loans in the first half of February. Real estate loans rose somewhat further, while all other loans (including the second type of loan under System regulation, consumer loans) fell moderately. Loans on the collateral of corporate, "muni-

cipal", and Federal Government securities declined, while loans to banks, reflecting extensive interbank borrowing during a period of strained money market conditions, showed a substantial expansion.

From the beginning of the year through February 14, "commercial" loans rose 610 million dollars among all reporting banks, as against a net increase of only one million dollars in the corresponding period of 1950. Real estate loans increased 56 million dollars, or practically the same amount as last year, while all other loans fell 10 million dollars in the first eight statement weeks of this year, compared with a decline of one million in the same weeks of last year.

As illustrated in the accompanying chart, commercial, industrial, and agricultural loans of the weekly reporting member banks increased about one third (4.5 billion dollars) during the year ended February 14, 1951, real estate loans about one fifth (900 million dollars), and other (including consumer) loans also about one third (1.4 billion dollars). There has been considerable regional variation in the rate of expansion of these three types of loans. Reporting member banks in the Minneapolis District, comprising mostly West-North Central States, and in the Eastern State districts of Boston, Philadelphia, and Richmond led in the rate of expansion of business loans. Some of the areas in the United States which have been experiencing relatively substantial industrial growth, such as the West Coast (San Francisco Federal Reserve District) and the Southwest (Dallas District), along with the Kansas City District, predominantly a farming area, reported much less than the average increase for all reporting banks. The widest relative expansion of bank real estate loans was again centered among the Eastern districts of Boston, New York, and Philadelphia, with the Minneapolis District also experiencing a sharp rise in real estate financing.

Percentage Increases in Commercial, Real Estate, and Other Loans of the Weekly Reporting Member Banks, by Federal Reserve District (February 15, 1950 to February 14, 1951)



* All loans except those to business and banks and those on securities and real estate.

The San Francisco District banks lagged considerably behind in the growth of real estate loans, perhaps because the banks in that district held a large proportion of such loans (about 45 per cent of total real estate loans of all weekly reporting banks on February 14), and so may have limited the volume of their new mortgage lending. The New York and Chicago Districts, which include within their boundaries the two largest metropolitan areas of the country and lead the other districts in population, led in the expansion of all other (including consumer) loans. Banks in the two central reserve cities alone accounted for about one third of the increase in total "other" loans at all reporting banks.

RECENT MONETARY POLICY MEASURES ABROAD

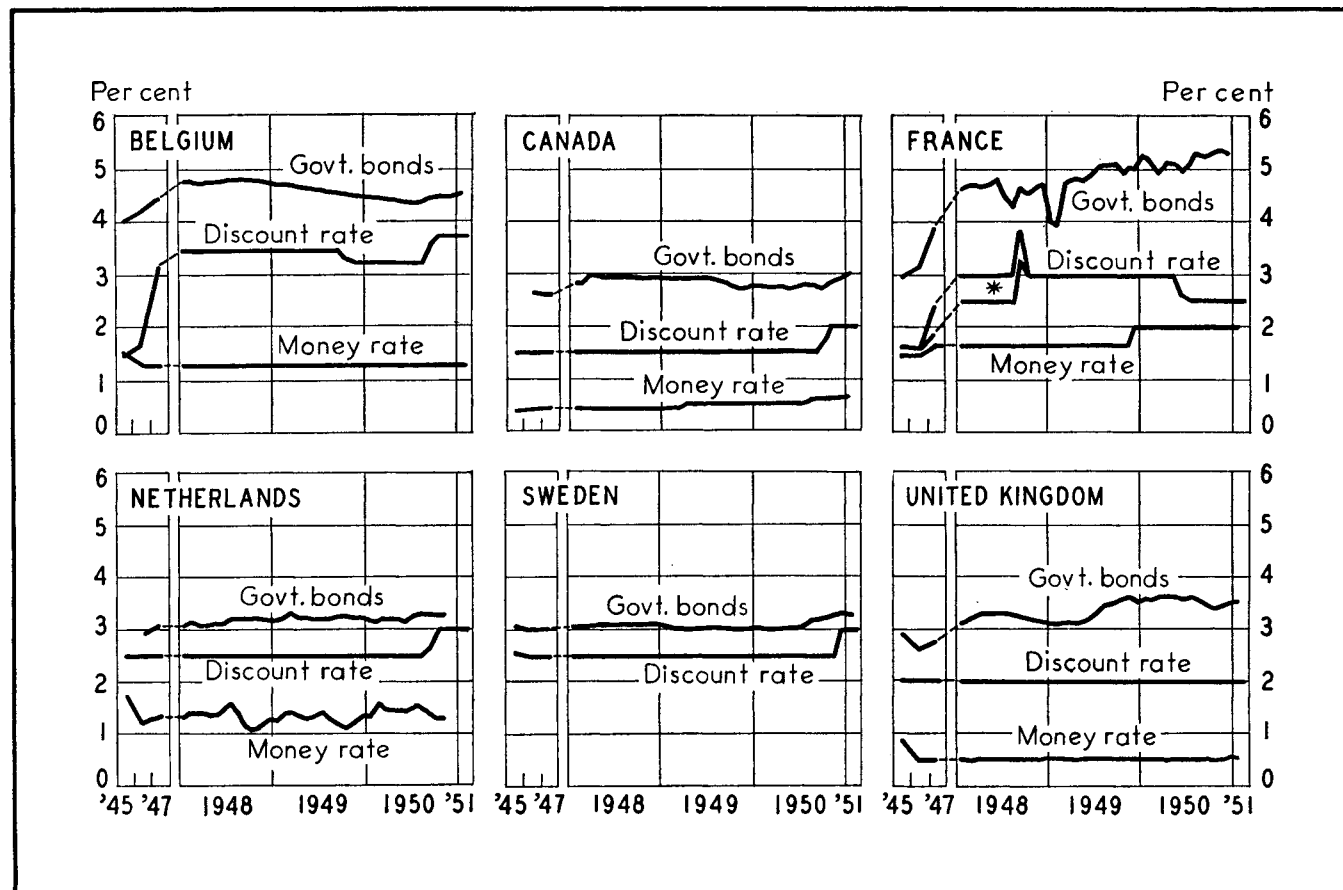
As a first line of defense against the renewed menace of inflation, foreign countries have resorted increasingly to monetary and credit controls. Central bank discount rates have been raised, in several instances for the first time since the war, and there have been concomitant increases in commercial bank loan rates. Long-term interest rates have been allowed to rise in several countries, including some where the monetary authorities previously had maintained rigid pegs for government bond quotations. At the same time, credit restrictions have been imposed, or existing credit controls reinforced, in a number of countries.

The new credit restrictions and the increased flexibility of the interest-rate pattern have, along with heavier taxation, reflected a reluctance in many foreign countries to reestablish comprehensive physical controls—price and wage controls, rationing, and the allocation of scarce materials—in the initial stages of the changeover to defense production. Instead, to

curtail civilian consumption and investment and to divert resources to defense, primary emphasis has been placed on monetary and fiscal restraints. Such restraints would in any event be a prerequisite to, and accompaniment of, successful physical controls, should the latter become unavoidable in the effort to insure, without open inflation, a proper distribution of scarce resources according to the relative needs of defense, exports, consumption, and investment.

The accompanying chart shows the recent course of interest rates, both short-term and long-term, in six foreign countries. Since the outbreak of the Korean war in June 1950, discount rates have been raised in Belgium, Canada, Denmark, Finland, Germany, the Netherlands, and Sweden. As will be seen from the table, Canada, the Netherlands, and Sweden had not previously resorted to central bank discount rate changes since World War II, but Belgium, Finland, and

Postwar Short and Long-Term Interest Rates Abroad
(Annual or monthly averages)



Note: Market rates are those offered on new Treasury bill issues, Government bond yields are for the following issues: Belgium, 4 per cent unified debt; Canada, 3 per cent bonds due 1961-66; France, 3 per cent irredeemables; Netherlands, 3 per cent 1937 issue; Sweden, 3 per cent irredeemables; United Kingdom, 2½ per cent consols.

* From January 10, 1947 to October 1, 1948 the Bank of France maintained two discount rates—a lower rate for Treasury bills and for strictly commercial bills, and a higher one for other paper.

Germany had already done so extensively.¹ Since commercial bank loan rates are, as a rule, based on the central bank rate, the rise in the official rate in each of the above-mentioned countries has resulted in an increase in the cost of bank loans.

Long-term interest rates, as reflected in the yield of government bonds, had by early 1950 been allowed to rise in several countries, including the United Kingdom; and since mid-1950, Sweden, which had previously pegged long-term government bond yields, has also broken away from a rigid interest-rate pattern. Corporate bond yields have in general fluctuated with long-term government bond yields, although as a rule at a somewhat higher level.

The interest-rate pattern has been particularly flexible in recent years in Belgium, France, Germany, and Italy, where there have been frequent changes in short-term rates and where government bond yields have been allowed to rise substantially. Despite the discount-rate reductions in France and Italy prior to the outbreak of the Korean war, long-term in-

¹ In France and Italy, where there has been extensive resort to discount rate changes in recent years, the rate was reduced prior to the outbreak of the war in Korea (to 2½ per cent in France and to 4 per cent in Italy), and was kept unchanged after that event. Commercial bank loan rates, however, remain high in these two countries.

terest rates in those two countries continued to rise through the major part of last year.

In the United Kingdom, government bond yields have been allowed to rise appreciably since 1947; short-term money rates, on the other hand, have remained unchanged since October 1945 at about ½ per cent for Treasury bills and ⅝ per cent for Treasury Deposit Receipts. Since February 1951, the two series of government bonds which are regularly offered to "small" savers have borne a higher rate of interest.²

In Sweden and Norway, long-term government bond yields were allowed to rise last July. Short-term interest rates in Sweden were also raised in the second half of 1950. In the Netherlands, long-term government bond yields have remained stable, despite a rise in short-term rates. In Denmark, long-term government bond yields have been allowed to rise, beginning in 1948, while short-term interest rates were increased only in the second half of 1950.

² Defense bonds now carry 3 per cent interest, as against 2½ per cent formerly; National Savings Certificates 3.05 per cent, as against 2.66 per cent. While interest on the bonds is subject to tax, that on savings certificates remains tax-free. Any individual may buy up to £375 worth of the new certificates, irrespective of the extent of his holdings of earlier series, but the over-all limit of defense bond holdings remains at £2,500.

In Switzerland, long-term interest rates, which had declined considerably by May 1950, subsequently rose noticeably. In Canada, too, there has recently been a rise in long-term bond yields, and in the third quarter of 1950 the Bank of Canada carried out open market sales of Dominion Government securities in order to prevent the inflow of foreign funds from expanding the cash reserves of the commercial banks and thus facilitating credit expansion.

Among countries that could not, for reasons of space, be included in the chart, Australia in recent years has maintained long-term government bond yields at a little over 3 per cent. In India there has been a very gradual rise since 1946. In South America there have been no appreciable changes, long-term bond yields having remained at about 3 per cent in Argentina, 7 per cent in Brazil, 8 per cent in Chile, and 10 per cent in Mexico.

At the same time that they were raising the cost of credit, monetary authorities in a number of countries were taking supplemental action to restrict its availability. Prior to mid-1950, stringent credit controls had already been established in Australia, Belgium, France, Germany, Italy, Mexico, and the Philippines. Since mid-1950 such controls have been adopted in the Netherlands and Sweden and have been under consideration in Norway. In Australia, the control of capital issues, which had been abandoned early in 1950, was reinstated in February of this year. In Belgium and Canada consumer credit was made subject to control last year.

The new credit controls vary greatly as between countries. In Germany, credit policy has relied chiefly on changes in cash reserve requirements, as provided in the new central bank legislation that became effective in 1948. In December 1948 the required reserves for commercial bank demand deposits at so-called "banking places" were raised by the German central bank authorities from 10 per cent to 15 per cent, but in 1949 they were relaxed in two stages to 10 per cent. However, in October 1950 they were raised again to 15 per cent as an integral part of the measures adopted to meet Germany's payment crisis within the European Payments Union.

Belgium, France, Italy, the Netherlands, and Sweden have had recourse in recent years to special techniques designed primarily to prevent the commercial banks from increasing their loanable funds by selling government bonds to the central bank. In Belgium and France, the commercial banks are

required to hold, in addition to cash reserves, a supplementary reserve of government securities. In Italy, a similar supplementary reserve must be either invested in government securities or held in an interest-bearing blocked account at the Bank of Italy or the Treasury. In Sweden, a supplementary reserve of government securities is combined with a cash reserve; part of the latter must be held with the Riksbank. In the Netherlands, the commercial banks are required to hold a prescribed minimum of liquid assets, including Treasury bills.

In Mexico, required supplementary reserves consist not only of government bonds but also of types of loans that the authorities wish to promote, the policy being not merely to restrict aggregate bank lending but to direct credit into desirable channels. In India, the larger, so-called "scheduled", banks had long been required to maintain minimum reserves with the Reserve Bank of India. Legislation enacted in March 1949 established minimum requirements for the "nonscheduled" banks as well. In addition, this legislation required all banks, effective March 1951, to maintain in cash or in government or other approved securities, not less than 20 per cent of their time and demand liabilities in India; balances maintained at the Reserve Bank may be counted toward the required 20 per cent.

As a general rule, the various central banks are empowered to change the cash or supplementary requirements, within specified limits, when necessary.

In some countries the commercial banks are required to hold especially large reserves against *increases* in deposits. Under such differential reserve requirements, due allowance is usually made for the widely different amounts of cash or acceptable assets that individual banks may hold at the time when the requirements are introduced. The earliest instance of such a technique appears to be the Australian "special accounts", introduced as a wartime expedient in 1941 and made a permanent feature of the Australian banking system in 1945. Under the Australian system, the commercial banks are required to maintain in special accounts at the Commonwealth Bank a varying proportion of new deposits. France, Italy, and Mexico also are now using this technique.

Still other techniques for quantitative restriction have been employed in recent years. The Bank of France, for instance, has fixed rediscount ceilings individually for each commercial bank, with an over-all maximum for the banking system as a whole. In Germany, the central banking system in February 1951 set limits for commercial bank lending; furthermore, the central bank announced that rediscount facilities might be withdrawn from commercial banks that do not comply with the new regulations.

Qualitative control has been imposed in France and the Netherlands by making each loan over a stated size subject to specific central bank authorization. In Australia, the Commonwealth Bank from time to time issues directives to the commercial banks to ensure that credits are extended only for essential purposes; the criteria for such credits have been made more stringent since December 1950. In all three countries,

Recent Changes in Central Bank Discount Rates

Country	Date of change	New rate (Per cent)	Change from previous rate	Date of previous last change	Total number of changes since July 1945
Denmark . . .	July 4, 1950	4½	+1	Jan. 15, 1946	3
	Nov. 2, 1950	5	+½	July 4, 1950	
Belgium . . .	Sept. 11, 1950	3¾	+½	Oct. 6, 1949	5
Netherlands . . .	Sept. 26, 1950	3	+½	June 27, 1941	1
Canada	Oct. 17, 1950	2	+½	Feb. 8, 1944	1
Germany	Oct. 27, 1950	6	+2	July 14, 1949	3
Finland	Nov. 3, 1950	7¾	+2	July 1, 1949	6
Sweden	Dec. 1, 1950	3	+½	Feb. 9, 1945	1

however, principal reliance is placed on quantitative restrictions. The Reserve Bank of India since 1949 has been granted broad powers of qualitative as well as quantitative control over commercial bank lending, but these powers have not yet been exercised. The qualitative aspects of the system of reserve requirements in use in Mexico have already been noted; selective controls have been applied also in some South American countries.

In the United Kingdom, the more traditional central banking techniques were supplemented during the war and post-war years by qualitative controls. The Capital Issues Committee, which was established during the war, passes upon all new industrial issues. With the outbreak of war, the commercial banks were asked to restrict advances "to purposes which would assist the war effort or which were otherwise designed to meet national needs". Since 1945, the banks have been requested to apply the same principles in extending loans in excess of a specified amount as those followed by the Capital Issues Committee. However, the principal step taken by the British in the field of monetary policy since the war has been the abandonment in 1947 (as already mentioned) of the cheaper-money drive.

In Canada, the authorities likewise have relied on informal arrangements.³ In Switzerland, the National Bank has recently advised the commercial banks to exercise caution in extending credit under present circumstances. In Sweden, simultaneously with the implementation of the new legislation providing for cash and supplementary reserve requirements, the Riksbank and the commercial banks have agreed informally to apply certain restrictive criteria when extending loans. In Belgium, the national bank has called on the commercial banks to limit credit, especially consumer credit.

³ On February 22, the Bank of Canada announced that the ten chartered banks had agreed upon a tighter lending policy, under which: (1) loans extended by the banks are to be limited to one year; (2) the term of corporation bonds purchased by the banks will also be limited to one year; (3) loans for the purchase of corporate securities are to require collateral double the value of the loan; and (4) margins for certain instalment-purchase loans are to be increased.

It is evident from the foregoing discussion that in recent years, and more especially since the outbreak of the Korean war in June 1950, foreign countries have increasingly resorted to monetary and credit policy as an instrument of economic and financial control. While the specific monetary techniques, some of which are ingenious and new, have varied greatly from country to country, in nearly all cases they have involved the abandonment of a rigid interest-rate pattern and the tightening of quantitative credit restrictions. Recent foreign monetary policies appear to be based on the conviction that credit restraints, to be effective, must be accompanied by a measure of flexibility in interest rates, and that relatively moderate rate increases are an effective counterinflationary device. At the same time, the abandonment of rigid support of the government bond market in countries that had previously pegged government bond quotations has facilitated flexible operations in the money market required to meet changing conditions.

The increasing degree of recourse to monetary and credit controls, together with tax increases and programs to promote voluntary savings, reflect a desire on the part of foreign countries, especially in Western Europe, to free resources for defense with a minimum of inflation and without unnecessarily impairing either the efficiency of their economies or the degree of balance-of-payments equilibrium thus far achieved. The mobilization of resources for defense at a time of full employment usually requires cutbacks, not only in nondefense government expenditures, but also in private investment and consumption. Postwar experience has demonstrated that direct controls, in the form of over-all price controls, rationing and allocations, tend merely to suppress inflation without eliminating it, to impede an increase in productivity, to distort production, and to aggravate balance-of-payments difficulties. In an effort to achieve the necessary curback in private spending, therefore, and to maintain healthy economies while building up defensive strength, foreign governments have chosen to attack the problem by resort to monetary and fiscal controls.

MEMBER BANK BORROWING FROM THE FEDERAL RESERVE SYSTEM

Member bank borrowing from the Federal Reserve System is, today, chiefly a means whereby the large money market and correspondent banks keep their cash reserves at a minimum and maintain at a maximum the proportion of their assets which is invested in interest-bearing loans and securities. Although the larger banks constantly assess their future need for funds and attempt to manage their loan and investment portfolios so as to provide funds when they will be needed, they often encounter periods of temporary money market tightness caused by withdrawals of funds from the market for tax payments or in connection with gold outflows or other factors. Large banks located in money centers find it profitable to keep their resources invested as fully as possible and seldom maintain substantial excess reserves for more than a few days, at most.

When a member bank's reserves fall below the required level, it can obtain the necessary additional reserves (if it is unwilling to reduce its loan volume) by (1) selling securities; (2) borrowing reserves ("Federal funds")¹ from other banks that have excess reserves; or (3) borrowing from a Reserve Bank. The sale of securities is usually resorted to only if the loss of reserves is expected to be of some duration or permanent. Therefore, if Federal funds are not available and if the banks expect the situation to ease shortly (possibly as a result of an inflow of funds from correspondent banks or a return flow of currency), money market banks will usually borrow from their Federal Reserve Bank.

¹ For a discussion of Federal funds see the March 1950 issue of the *Monthly Review*, page 28.

The policy of smaller banks is somewhat different. They usually try to keep their deposits at the Reserve Banks above the required level, since the expense of keeping a constant watch on their reserve positions and making continual adjustments in their assets is likely to be greater than the additional income which they could realize by keeping fully invested. However, some of the smaller banks, particularly those in agricultural or resort areas, have a strong seasonal pattern of loans; such banks often borrow from the Reserve Banks prior to their lending season in order to be able to meet their customers' demands for working capital, and repay their borrowings after crops are marketed or the vacation season draws to a close. Although a great many more banks borrow for seasonal purposes than for day-to-day reserve adjustment purposes, seasonal loans account for only a small proportion of the dollar volume of total member bank borrowing.

Member banks borrow substantially less today than they did in the first 15 years of Reserve System history, although considerably more than in the late 1930's and early 1940's when the banks held large amounts of excess reserves. Since the end of the war the average amount of borrowing as reported on weekly statement dates has been in the neighborhood of 125-150 million dollars. The largest amount was 798 million dollars on January 31, 1951; the money market was particularly tight at that time owing to an increase in the percentage reserve requirements of member banks. This level compares with the peak of 2.8 billion reached in November 1920. In recent years the amount of member bank assets hypothecated at any one time has never been as large as 1 per cent; in the 1920's on occasion it went as high as 8 per cent.

There are two primary reasons for the low level of member bank borrowing. First, a tradition has developed against incurring a substantial indebtedness for an extended period of time. Second, it has been cheaper to sell Government obligations than to borrow, and most banks have had relatively large portfolios of Government securities from which such sales could be made. Yields on short-term Government securities in recent years have been lower than the discount rate, and have moved within a relatively narrow range. This stability has reduced the risk of loss for banks holding Government obligations. A bank which has sold Government securities instead of borrowing to meet a temporary demand for funds has felt fairly confident that it could buy them back at approximately the same price as it sold them.

Banks who wish to borrow may do so in one of two ways: they may *rediscount* eligible paper with the Reserve Banks, or they may obtain a *direct advance* on their own promissory note, which in turn is secured by either Government securities or eligible paper. Eligible paper is defined in the regulations of the Board of Governors of the Federal Reserve System as "a negotiable note, draft, or bill of exchange, bearing the indorsement of a member bank . . . , the proceeds of which have been used or are to be used, in producing, purchasing, carrying or marketing goods in one or more of the steps of

the process of production, manufacture, or distribution, or in meeting current operating expenses of a commercial, agricultural or industrial business, or for the purpose of carrying or trading in direct obligations of the United States . . ." Furthermore, to qualify as eligible paper commercial or industrial paper must have a maturity of not more than 90 days, while agricultural paper must mature within nine months of the date of discount. No maturity restrictions apply to Government obligations, although at some periods in the past special preferential rates have been available on loans against short-term Government obligations.

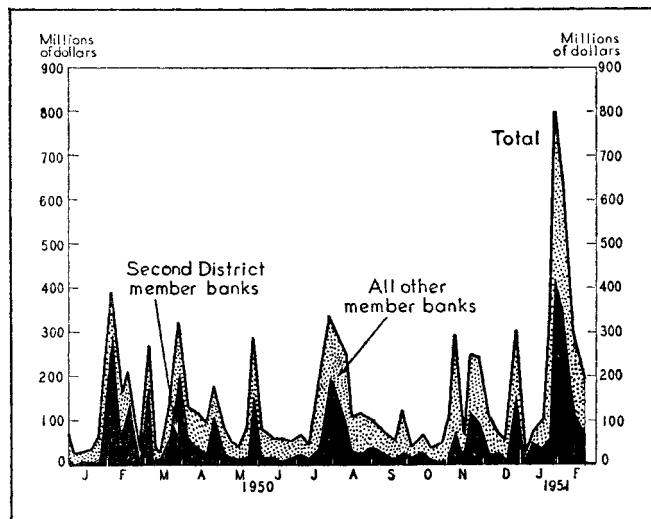
In the first two decades of Reserve System history member banks used the rediscount and direct advance methods about equally, but nowadays almost all member bank borrowing employs the direct advance method. The pure mechanics of the direct advance method is simpler and, in the case of renewals, more flexible. Most loans are currently made against Government obligations—partly because almost all banks have relatively large portfolios of Government obligations, and partly because of the simplicity of the mechanics involved. Applications for loans secured by eligible paper aggregating \$1,000 or more must be accompanied by a complete financial statement of the original borrower whose paper is to be used as security. Government securities have been the only type of collateral used to secure loans in the Second District for the last 10 years, although in some sections of the country minor amounts are occasionally advanced on eligible paper, principally loans guaranteed by the Commodity Credit Corporation. On January 24, 1951, the latest date for which such information is available, only 1.2 million dollars out of the total of 272 million dollars in outstanding loans to member banks was secured by some type of paper other than Government obligations.

Under normal conditions loans to member banks may have a maturity of up to 90 days. Loans secured by either Government obligations or eligible paper are made at the face or principal value of the security less the interest or discount charge, which is deducted in advance.

In recent years, most advances to member banks have been outstanding for short periods only. The large city banks which account for the bulk of the dollar volume of borrowing usually want the money only overnight or for a few days at most. Loans to other types of member banks, however, occasionally have a relatively long maturity. Of the 272 million dollars of loans outstanding on January 24 last, 267 million matured within 15 days and almost all of the rest in 16 to 90 days. In the 1920's, sometimes as much as 30 per cent of the total amount of loans outstanding had a maturity of 31 days or more.

Total member bank borrowing today usually fluctuates fairly widely over a year without any clear seasonal pattern, depending for the most part on money market conditions. While there are of course periods each year when the money market is apt to be relatively tight or easy, other factors which

**Borrowings of Member Banks in the Second District and in
All Other Federal Reserve Districts**
(Weekly, December 28, 1949-February 21, 1951)



do not follow seasonal patterns, such as Reserve System open market operations or inflows or outflows of gold, may counteract the tendency. The amounts borrowed by individual banks at any one time range from a few thousand to 100 million dollars or more, according to the size of the bank and the character of its operations.

The central reserve New York City banks normally account for a large percentage of the dollar volume (although only a small fraction of the number) of loans outstanding, both in the Second District and in the country as a whole (see the accompanying chart). At peak periods, as many as 80 or 100 of the 751 member banks in the Second District may borrow at a time, but only 6 or 10 of them are likely to be central reserve city banks.

In 1950 the twelve Reserve Banks made about 7,600 individual loans (no record is available of the number of individual banks represented in this total); the total amount of credit extended was 17.1 billion dollars. The Federal Reserve Bank of New York made over 2,000 loans, which amounted in total to about 7.7 billion dollars, or about 28 per cent of the total number of loans extended by the System and 45 per cent of the total dollar volume. (In other recent years the latter proportion has been much higher.)

As a result of the banking crisis of 1931-33, the Federal Reserve Act was amended (Section 10b) to permit member banks to borrow, in case of emergency, against any asset acceptable to the Reserve Banks. This extension of the borrowing privilege beyond the holdings of normally eligible paper was enacted in 1932 to enable banks to obtain additional cash reserves in periods of declining business activity, when their

volume of eligible paper would tend to be low. To date, borrowing of this emergency type has been rare. Section 10b loans carry an interest charge of $\frac{1}{2}$ of 1 per cent higher than the rate for loans against eligible paper, and may be outstanding for as long as four months.

The regulations of the Board of Governors in accordance with the Federal Reserve Act stipulate that the Reserve Banks should make loans to member banks only if such loans are in the public interest. "In extending accommodation to any member bank, the Federal Reserve Banks are required to have due regard to the demands of other member banks, as well as to the maintenance of sound credit conditions and the accommodation of commerce, industry, and agriculture, and to consider not only the nature of the paper offered, but also the general character and amount of the loans and investments of the member bank, and whether the bank has been extending an undue amount of credit for speculative purposes in securities, real estate, or commodities, or in any other way has conducted its operations in a manner inconsistent with the maintenance of sound credit conditions."²

The Reserve Banks are thus in a position not only to refuse credit accommodation to member banks in some circumstances, but also, through the discount rate, to control to some extent the amount of member bank borrowing. The Federal Reserve Act provides that the Board of Directors of each Reserve Bank shall set its bank's discount rate, subject to "review and determination" by the Board of Governors of the Federal Reserve System. On occasion in the past, different rates have been set in the various sections of the country, and at times there have been differential rates on various types of paper, but a single, uniform rate has prevailed throughout the System since 1942. The current rate at all Federal Reserve Banks is $1\frac{3}{4}$ per cent per annum for all types of eligible paper. In the past the rate has ranged as high as 7 per cent and as low as 1 per cent. During the war a special preferential rate of $\frac{1}{2}$ of 1 per cent for borrowing against short-term Governments was in effect.

While the total amount of member bank borrowings today is small and borrowing serves more as a convenience than a necessity, changes in the discount rate are concrete evidence of the Federal Reserve System's view of economic conditions and of the need for facilitating or restricting the extension of credit. Furthermore, such changes tend to set the pattern for other market rates. Since the Federal Reserve discount rate is the rate of last resort, rates on open market commercial paper, bankers' acceptances, and prime business loans usually move up or down with the change in the discount rate.

² Item 1,000, Regulation A of the Board of Governors of the Federal Reserve System.

FURTHER AMENDMENTS TO REGULATION X

Regulation X, which relates to real estate credit, was further amended on February 15 by the Board of Governors of the Federal Reserve System to restrict the use of credit in the financing of nonresidential construction. The new amendment is designed to supplement other actions taken to restrain inflationary tendencies and to release more material and labor for the defense program.

Regulation X was first issued on October 12, 1950, when credit on one and two-family homes was restricted.¹ On January 12, 1951, the regulation was amended by placing credit restrictions on three and four-family and multi-unit residences.² The new (February 15) amendment has broadened Regulation X to include restrictions, in general, on credit for the construction of new office buildings, stores (including sales display and service facilities, whether wholesale or retail), banks, hotels, motels, motor courts, garages, automobile service stations, restaurants, theatres, clubs, and the like. Credit restrictions on major additions and improvements to nonresidential properties are also included under the revised Regulation X, if the cost exceeds 15 per cent of the appraised value of the structure.

The maximum amount of a loan on any nonresidential building has been limited to 50 per cent of the value of the building. In the case of property improvement a loan may not exceed 50 per cent of the total improvement cost. "Value" for loan purposes is defined as the *bona fide* sale price in the case of a sale, or appraised value as determined in good faith by the lender in the case of any other extension of credit.

¹ The terms of the regulation as originally issued were discussed in the November 1950 number of this *Review*.

² For a discussion of the January 12 amendment, see the February issue of this *Review*.

Neither type of loan may exceed 25 years, and full amortization within the maturity time is required.

Certain classes of construction are specifically exempted from the revised terms of Regulation X. These include schools, hospitals, churches, public utilities, and property constructed for use by the Federal Government or any political subdivision of government. In addition, new building for use in manufacturing, mining, or farming is exempt, provided more than 80 per cent of the floor space is to be used for manufacturing, for mining or extracting raw materials, or for the production or storage of agricultural commodities, including livestock.

Short-term construction credits extended to any person other than the owner of the new nonresidential property are also exempt from the regulation, provided that the loan is granted for a term of not more than 24 months. Short-term construction credits to property owners are subject to the 50 per cent credit restriction of the regulation, but exemption from the amortization provision is granted if the credit is advanced for not more than 24 months. If the credit is advanced for more than 24 months, agreement between the lender and owner can delay amortization for a period of 24 months after the extension of the credit. The provisions governing short-term credit apply both to new buildings and to major additions to or improvements of nonresidential property.

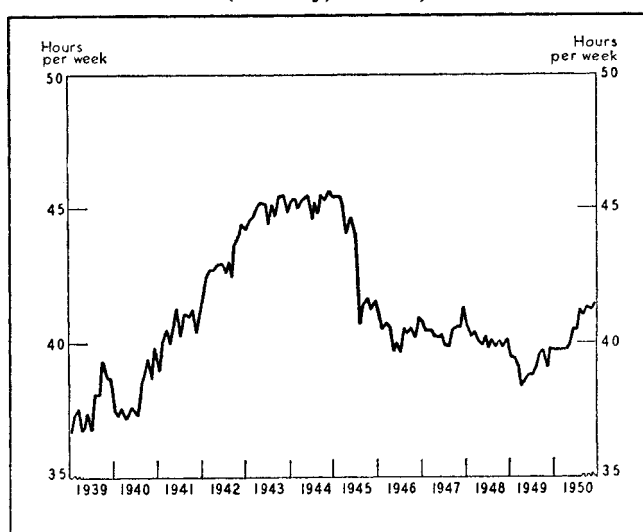
Most nonresidential construction now banned or subject to direct control by the National Production Authority falls within the categories covered by the credit restrictions in the new amendment to Regulation X. Authorization from the NPA is generally required for almost all types of buildings covered by the new amendment. The construction of theatres, clubs, and other recreational or amusement facilities has been completely banned since October by the NPA.

AVERAGE HOURS WORKED PER WEEK IN MANUFACTURING

In each issue of the *Review*, if space is available, one item of the table of Business Indicators (see page 43) will be briefly analyzed and its significance explained. For this issue, the monthly series on average hours worked per week in manufacturing has been selected for discussion.

The series in question has been included in the table of Business Indicators because of its sensitivity to changes in general business conditions. As shown in the accompanying chart, average hours worked per week in manufacturing rose steeply to meet the demand for increased production during World War II. As a result of the cutback in military demand, they dropped sharply after V-J Day. The manufacturing work week maintained a fairly stable level during the postwar period until the early months of 1949, when it dipped slightly, reflecting the business recession. Since April 1949, and in particular since the outbreak of the Korean crisis, average hours worked in manufacturing have been increasing. The number of hours worked per week rose from 38.4 in April 1949, the lowest average for any month since 1940, to a peak of 41.4 in

Average Hours Worked per Week in Manufacturing Industries
(Monthly, 1939-50)



Source: U. S. Bureau of Labor Statistics.

December 1950. Nevertheless, the manufacturing work week is still substantially shorter than the wartime high of 45.6 hours, indicating a possible source of increased production.

This monthly series is prepared by the Bureau of Labor Statistics of the United States Department of Labor and is available from January 1939 to date. In addition, annual averages, partly based on estimates, have been prepared for most years back to 1909. The *Monthly Labor Review* of the Department of Labor and the *Survey of Current Business* published by the Department of Commerce carry figures for the thirteen most recent months. Both of these publications provide data also on hours worked in various individual manufacturing and non-manufacturing industries. Data for the two or three most recent months are usually preliminary and subject to revision. Annual data from 1909 to 1945 can be found in a Bureau of the Census publication, *Historical Statistics of the United States, 1789-1945*.

Hours worked per week in manufacturing are computed by the Bureau of Labor Statistics from reports furnished each month by a selected sample of manufacturing concerns, whose combined employment accounts for about sixty-two per cent of all manufacturing workers. The figures cover production and nonsupervisory workers only. The reports are generally made for the weekly pay period ending nearest the fifteenth of the month. Average hours worked per week are computed by dividing the total man hours for which both full and part-time employees received pay during the week by the total number of such workers. Thus, holidays, sick-leave, and paid vacations are included, as well as actual working time.¹ Average hours worked per week are affected not only by changes in the

length of the work week in individual industries, but also by shifts in employment from industries which normally work shorter hours to those with longer hours, and vice versa.

The effect of seasonal factors on this series is believed to be minor; therefore, it has not been adjusted for seasonal variation.

In recent years, there has been a growing discrepancy between hours paid for, which the BLS series represents, and hours actually worked, because of the increasing prevalence of paid vacations, holidays, sick-leave, portal-to-portal pay, and similar practices. However, the form in which payroll records, from which the reports to the BLS are derived, are often kept makes it difficult to determine the number of hours actually worked.

Customary employment practices, together with the requirement of premium pay for overtime work, tend toward the maintenance of stability in the number of hours worked in manufacturing. Nevertheless, and despite the fact that fluctuations in this series are not so extreme as those which occur in certain other series, these figures serve as an outstanding indicator of business movements. In respect to direction of movement, moreover, the changes in the average number of hours worked per week generally occur in advance of changes in general business conditions, and the series can therefore be classified as one which "leads".²

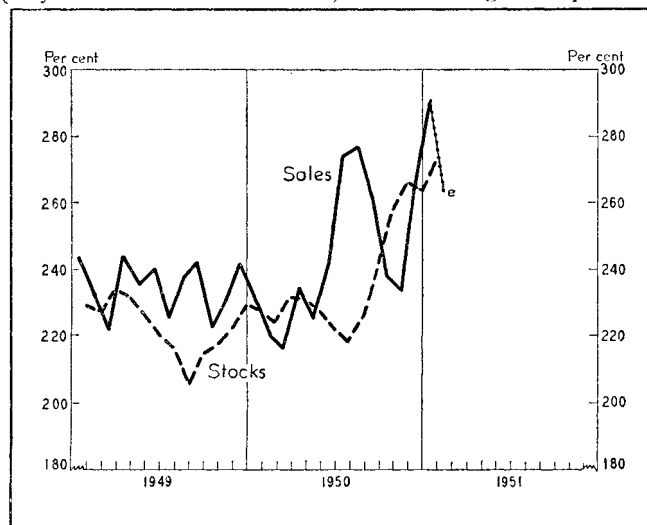
¹ For a more complete description of the method of computation, see U. S. Bureau of Labor Statistics, Bulletin No. 993, *Techniques of Preparing Major BLS Statistical Series*, 1950, pp. 37-41.

² Dr. Geoffrey Moore estimates that turning points in the average hours worked per week in manufacturing series precede those of the general business cycle by an average of 3.2 months. See Geoffrey H. Moore, *Statistical Indicators of Cyclical Revivals and Recessions*, Occasional Paper 31, National Bureau of Economic Research, 1950.

DEPARTMENT STORE TRADE

The strong resurgence of retail activity at Second District department stores, after reaching record-breaking proportions during January, continued during February, according to

Indexes of Department Store Sales and Stocks
Second Federal Reserve District
(Adjusted for seasonal variation, 1935-39 average=100 per cent)



e February 1951 estimated.

preliminary information, but with much less intensity. As the chart shows, this bank's index of average daily sales, seasonally adjusted, climbed in January to 291 per cent of the 1935-39 average, or 14 percentage points above the former record set last August.

A noteworthy feature of the extraordinarily high rate of retail activity that has characterized department store trade in this District since the beginning of the year has been the extent to which shoppers have been buying nondurable goods. Whatever the reason, whether it be early Easter shopping or the prospects of higher prices and additional tax levies, the increased demand has caused sales of ready-to-wear apparel (relative to year-ago levels) to approach the performances in household durable lines for the first time in almost two years. An outstanding example of the renewed strength of the apparel lines during January was the sales of women's and misses' dresses, which after recording year-to-year decreases for twenty consecutive months surpassed the comparable year-earlier dollar volume by almost 15 per cent. Sales of women's and misses' coats and suits and of men's clothing registered gains of more than 30 per cent, the highest since October 1948 and July 1947, respectively.

Indexes of Department Store Sales and Stocks
Second Federal Reserve District
(1935-39 average=100 per cent)

Item	1951		1950	
	Jan.	Dec.	Nov.	Jan.
Sales (average daily), unadjusted.....	233	450	302	185r
Sales (average daily), seasonally adjusted..	291	266	234	231r
Stocks, unadjusted.....	240	239	306	201r
Stocks, seasonally adjusted.....	273	263	266	228r

r Revised.

The excellent showing of the apparel group apparently had little or no effect on the comparative sales performances of the household durable lines. Major appliances, which were selling poorly during January of last year, recorded a gain of 71 per cent. Radio-television, domestic floor coverings, and furniture and bedding sales were up 42, 59, and 31 per cent, respectively, from their corresponding year-earlier levels.

Although sales had reached unprecedented heights, the inventory position of the stores at the end of January was not appreciably different from that of a month earlier. Receipts of additional merchandise by the stores more than made up for the drain on stocks. In fact, in terms of usual seasonal needs, the value of stocks held on January 31 was at an all-time high for this District.

Indicative of the long range inventory policy of the stores was the amount of commitments for additional merchandise. The dollar value of orders outstanding at the end of January

Department and Apparel Store Sales and Stocks, Second Federal Reserve District, Percentage Change from the Preceding Year

Locality	Net sales		Stocks on hand Jan. 31, 1951
	Jan. 1951	Jan. through Dec. 1950	
Department stores, Second District.....	+31	+ 3	+20
New York City.....	+29	+ 2	+20
Northern New Jersey.....	+37	+ 5	+19
Newark.....	+37	+ 4	+18
Westchester County.....	+32	+ 5	+ 4
Fairfield County.....	+39	+ 7	+21
Bridgeport.....	+40	+ 8	+23
Lower Hudson River Valley.....	+27	+ 1	+22
Poughkeepsie.....	+27	0	+23
Upper Hudson River Valley.....	+40	+ 4	+28
Albany.....	+47	+ 4	+28
Schenectady.....	+33	+ 2	+16
Central New York State.....	+34	+ 6	+27
Mohawk River Valley.....	+32	+ 6	+29
Utica.....	+23	+ 5	+33
Syracuse.....	+34	+ 6	+25
Northern New York State.....	+35	+ 4	+22
Southern New York State.....	+41	+ 5	+14
Binghamton.....	+39	+ 2	+10
Elmira.....	+54	+10	+26
Western New York State.....	+29	+ 4	+23
Buffalo.....	+29	+ 3	+29
Niagara Falls.....	+31	+ 9	+17
Rochester.....	+30	+ 5	+13
Apparel stores (chiefly New York City).....	+22	+ 1	+16

was almost double that of January 31, 1950. Orders placed by the stores during the month were more than twice as large, dollarwise, as they had been during January of last year. They exceeded any previous monthly total since at least 1940, when such data first were obtained by this bank.

Business Indicators

Item	Unit	1950				Percentage change	
		1951		1950		Latest month from previous month	Latest month from year earlier
		January	December	November	January		
UNITED STATES							
<i>Production and trade</i>							
Industrial production*.....	1935-39 = 100	219p	217	214r	183	+ 1	+20
Electric power output*.....	1935-39 = 100	318	316	306	276	+ 1	+15
Ton-miles of railway freight*.....	1935-39 = 100	198p	198p	191	157r	#	+26
Manufacturers' sales*.....	billions of \$	—	21.3p	21.1	16.2	+ 1	+35
Manufacturers' inventories*.....	billions of \$	—	34.0p	33.0	29.0	+ 3	+18
Manufacturers' new orders, total.....	billions of \$	—	23.5p	22.4	17.0	+ 5	+47
Manufacturers' new orders, durable goods.....	billions of \$	—	11.4p	10.6	7.5	+ 7	+64
Retail sales*.....	billions of \$	13.3p	12.2	11.4	10.9	+ 9	+22
Residential construction contracts*.....	1923-25 = 100	297p	302	284	245	- 2	+21
Nonresidential construction contracts*.....	1923-25 = 100	360p	355	323	239	+ 1	+51
<i>Prices, wages, and employment</i>							
Basic commodity prices†.....	Aug. 1939 = 100	383.9	358.9	343.8	249.5	+ 7	+54
Wholesale prices†.....	1926 = 100	180.0p	175.3	171.7	151.5	+ 3	+19
Consumers' prices†.....	1935-39 = 100	—	178.4	175.6	166.9	+ 2	+ 7
Personal income* (annual rate).....	billions of \$	—	240.7p	232.9	214.6	+ 3	+15
Composite index of wages and salaries*.....	1939 = 100	—	216p	214	204	+ 1	+ 6
Nonagricultural employment*.....	thousands	45,745p	45,584	45,494r	42,544	#	+ 8
Manufacturing employment*.....	thousands	15,750p	15,666	15,628r	14,016	+ 1	+12
Average hours worked per week, manufacturing†.....	hours	40.6p	41.4	41.2	39.7	- 2	+ 2
Unemployment.....	thousands	2,503	2,229	2,240	4,480	+12	-44
<i>Banking and finance</i>							
Total investments of all commercial banks.....	millions of \$	72,360p	74,720p	73,860p	78,290	- 3	- 8
Total loans of all commercial banks.....	millions of \$	52,890p	52,830p	51,650p	42,940	#	+23
Total demand deposits adjusted.....	millions of \$	92,090p	93,200p	90,700p	86,400	- 1	+ 7
Currency outside the Treasury and Federal Reserve Banks*.....	millions of \$	27,222	27,531	27,298	27,139	- 1	#
Bank debits* (U. S. outside New York City).....	billions of \$	87.8	77.1	80.7	65.9	+14	+33
Velocity of demand deposits* (U. S. outside New York City).....	1935-39 = 100	101.9	95.8	97.7	87.4	+ 6	+17
Consumer instalment credit outstanding†.....	millions of \$	—	13,478p	13,304	10,836	+ 1	+24
<i>United States Government finance (other than borrowing)</i>							
Cash income.....	millions of \$	4,698p	4,488	3,487	3,485	+ 5	+35
Cash outgo.....	millions of \$	3,431p	4,004	3,415	3,177	-14	+ 8
National defense expenditures.....	millions of \$	1,881p	1,679p	1,607	1,115	+12	+69
SECOND FEDERAL RESERVE DISTRICT							
Electric power output* (New York and New Jersey).....	1935-39 = 100	126	124	122	112	+ 1	+13
Residential construction contracts*.....	1923-25 = 100	—	161p	170	162	- 5	+ 5
Nonresidential construction contracts*.....	1923-25 = 100	—	220p	182	191	+20	+ 8
Consumers' prices† (New York City).....	1935-39 = 100	—	175.1	172.1	163.7	+ 2	+ 6
Nonagricultural employment*.....	thousands	—	7,235.9p	7,184.2	6,859.8	+ 1	+ 5
Manufacturing employment*.....	thousands	2,639.3p	2,615.2	2,584.3r	2,357.5	+ 1	+12
Bank debits* (New York City).....	billions of \$	46.4	43.5	44.2	37.5	+ 7	+24
Bank debits* (Second District excluding N. Y. C. and Albany).....	billions of \$	3.9	3.2	3.7	3.0	+25	+34
Velocity of demand deposits* (New York City).....	1935-39 = 100	114.1	113.0r	114.4	99.3r	+ 1	+15

p Preliminary. r Revised.

* Adjusted for seasonal variation. † Seasonal variations believed to be minor; no adjustment made.

Change of less than 0.5 per cent.

Source: A description of these series and their sources is available from the Domestic Research Division, Federal Reserve Bank of New York, on request.

NATIONAL SUMMARY OF BUSINESS CONDITIONS

(Summarized by the Board of Governors of the Federal Reserve System, February 28, 1951)

Activity at factories and mines and in the construction industry was generally maintained at advanced levels in January and February. Department store sales in February were down somewhat from the peak rate reached in mid-January. Prices of agricultural commodities advanced further, while prices of industrial commodities leveled off after the Federal price-freeze order on January 26. Bank loans to business continued to expand substantially in January and early February.

INDUSTRIAL PRODUCTION

The Board's production index in January was 219 per cent of the 1935-39 average, 10 per cent above last June and 20 per cent above January 1950. Output of durable goods declined slightly in January, while production of nondurable goods and of minerals increased somewhat.

In February, industrial production is estimated to have declined slightly, owing mainly to the effects of work stoppages at railroad terminals and in the wool textile industry. After the end of the rail strike in mid-February, steel and coal production recovered to about January levels and automobile output rose to the highest weekly rate since last October.

Small reductions in activity were fairly widespread in January among metal fabricating industries, reflecting in part the initial effects of cuts in metal use for nondefense purposes and in part temporary factors. A moderate decline in the automobile industry reflected mainly additional model-changeovers. Production of most household durable goods was maintained close to earlier record levels. Steel production increased in January to a new record annual rate of 104 million tons. Output of railroad equipment and aircraft also expanded further.

Lumber production was at an exceptionally high level for this season.

The rise in nondurable goods output in January reflected mainly new record levels of paper production, and gains in cotton textiles, chemicals, and petroleum products. Meat production declined from the high November-December rates, but was 3 per cent larger than a year ago.

EMPLOYMENT

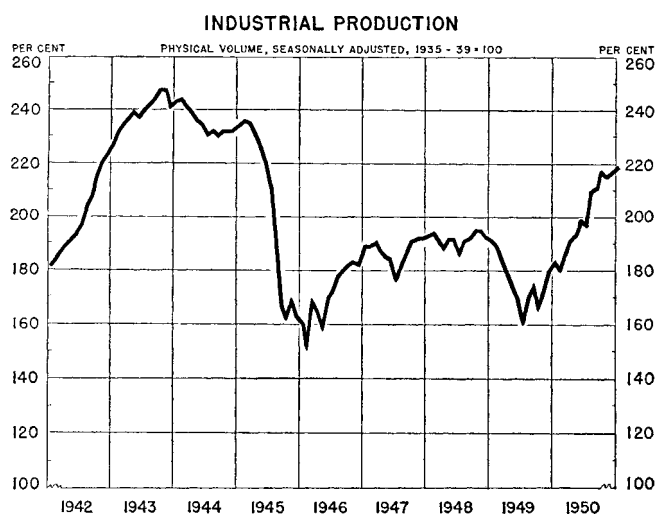
Employment in nonagricultural establishments, seasonally adjusted, increased slightly further in mid-January to 45.7 million. Employment in retail trade, construction, and manufacturing industries declined less than is usual at this season. The average work week in manufacturing decreased to 40.6 hours, as compared with an average of 41.3 in the preceding three months; average hourly earnings showed some further rise.

CONSTRUCTION

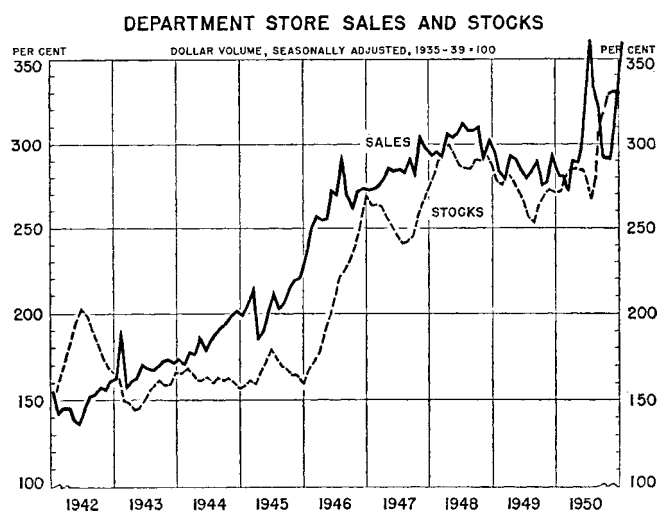
Value of construction contracts declined in January, reflecting seasonal decreases in most categories of awards. The number of housing units started in January continued at a very high winter rate, totaling 87,000 as compared with 95,000 in December and 79,000 in January 1950. The moderate decline from December to January reflected a sharp drop in public units offset in part by some rise in private units started.

DISTRIBUTION

The Board's seasonally adjusted index of the value of department store sales in January was 360 per cent of the 1935-39



Federal Reserve index. Monthly figures; latest figure shown is for January.



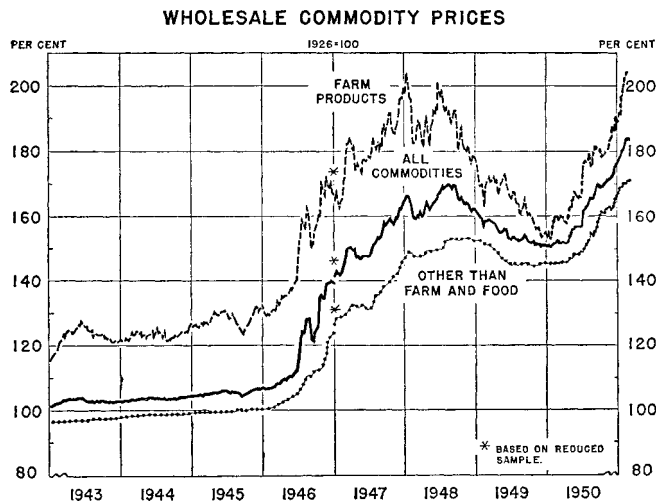
Federal Reserve indexes. Monthly figures; latest figure for sales is January; latest for stocks is December.

average. This was 28 per cent higher than in January 1950 and about equal to the peak reached last July immediately after the Korean outbreak. Dollar sales at most other retail outlets, especially apparel stores, exceeded their earlier peaks. In mid-February, sales at department stores were about 16 per cent greater than in the same period a year ago. Despite the exceptionally large volume of sales of numerous nondurable as well as durable goods, retailers' inventories have been generally maintained reflecting the sustained high level of output.

COMMODITY PRICES

The wholesale price level continued to advance after the announcement of the general Federal freeze order on January 26, reflecting mainly increases in farm products and foods which are only partly controlled. Farm products rose 4 per cent further by the third week in February, to a level 33 per cent above the low point reached early last year. Prices of industrial commodities showed little further rise from a level 17 per cent higher than a year ago.

Consumer prices probably advanced somewhat further in January, with increases in food prices again accounting for most of the rise.



Bureau of Labor Statistics' indexes. Weekly figures; latest shown are for week ended February 20.

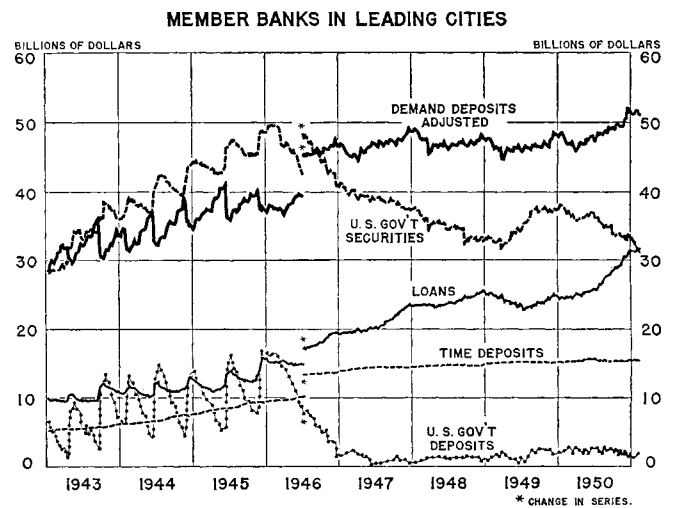
BANK CREDIT AND THE MONEY SUPPLY

Business loans at banks in leading cities increased substantially further during January and the first half of February—a season of the year when these loans usually decline. Deposits and currency held by businesses and individuals decreased somewhat owing in part to a seasonal transfer of funds from private to Treasury accounts as a result of income tax payments. Purchases of Government securities from the banking system by nonbank investors and a continued gold outflow also tended to reduce the privately held money supply during this period.

Required reserves of member banks increased by about 2 billion dollars between mid-January and early February as a result of additions to legal reserve requirements. Banks met these increases in part by their usual receipts of reserves at this season of the year and in part by selling U. S. Government securities.

SECURITY MARKETS

A rise in common stock prices during the first two weeks of February was almost completely offset by a decline in the third week. Yields on most U. S. Government securities and high-grade corporate bonds continued to show little change.



Wednesday figures; latest shown are for February 14.